

EDISON BROTHERS STORES INC.
1976
Annual Report



SPECIAL REPORT:
Nine Stores Opened
in One Shopping Center

EDISON BROTHERS STORES INC.

The Board of Directors

JULIAN I. EDISON
Chairman of the Board

BERNARD A. EDISON
President

IRVING EDISON

ERIC P. NEWMAN
Executive Vice President
and Secretary

SIMON EDISON

SAMUEL L. DEMOFF
Executive Vice President

NORMAN ROSENTHAL
Executive Vice President

HENRY KOHN
Frankenthaler, Kohn & Schneider
General Counsel

Advisory Members

KEITH KEPLEY

ROY W. OSCARSON

WILLIAM E. POLLEY

THE YEAR IN BRIEF

	1976	1975
Net sales	\$532,312,000	\$489,594,000
Net income	28,927,000	23,957,000
Total cash dividends paid	6,916,000	6,019,000
	Per Share	Per Share
Net income	\$ 7.24	\$ 5.94
Common stock dividends paid	1.72	1.48
Total taxes	9.73	8.63
Common stock equity	34.40	29.60
Working capital	\$ 84,615,000	\$ 72,175,000
Long-term debt	19,188,000	20,687,000
Common stock equity	136,543,000	118,305,000
Number of preferred shares outstanding	19,000	19,000
Number of common shares outstanding	3,969,000	3,997,000
Number of stockholders	4,300	4,400
Units at end of year	1,244	1,145

ANNUAL MEETING

of stockholders will be held in the offices of the company at 400 Washington Ave., St. Louis, Missouri, at 11 a.m. on Monday, April 25, 1977. A notice of the meeting with a proxy statement for holders of common stock is mailed under separate cover.



JULIAN I. EDISON

BERNARD A. EDISON

TO OUR STOCKHOLDERS:

We are very pleased to report that the people of Edison Brothers Stores, Inc. again achieved record results in 1976.

For several years Edison Brothers has been consciously pursuing two objectives: to expand the shoe division and increase its profitability, and to expand the non-shoe divisions as rapidly as can be done soundly. The charts on these pages reflect the progress which has been made towards these objectives.

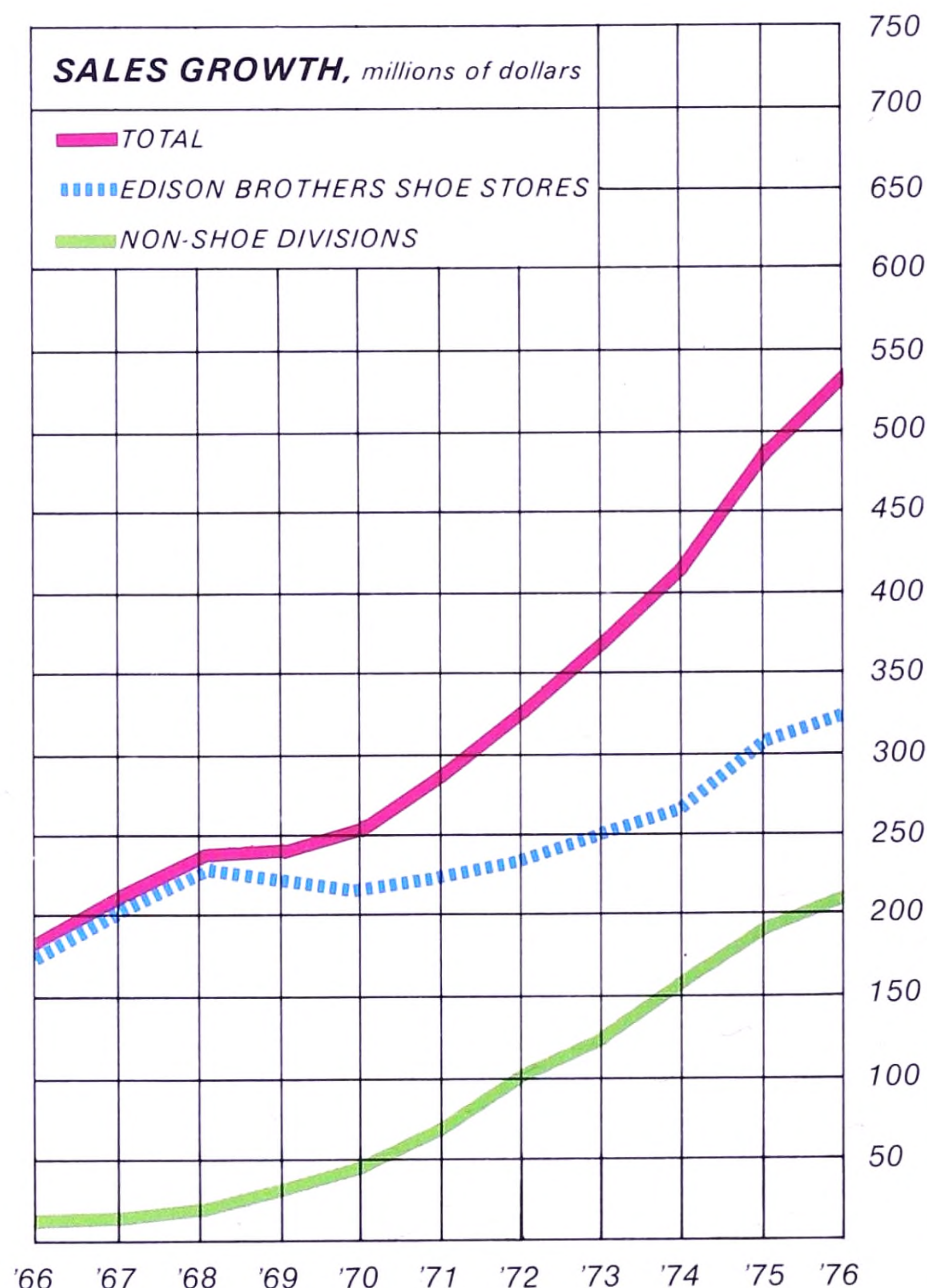
In 1976 both the shoe and non-shoe portions of the company again set new records in sales and earnings. Total profits increased 20.7% on an 8.7% increase in sales compared to fiscal 1975, which was one week longer than fiscal 1976. These results enabled the Board of Directors to increase the quarterly dividend on common stock from 43 cents per share to 55 cents, effective with the March 11, 1977 payment. This is the twelfth increase in the dividend rate in the past twelve years.

No single factor stands out as the dominant reason for the outstanding results of 1976. Rather, it was the excellent performance of the organization across a wide range of operating areas that was responsible for the year's achievements. Buying groups, store operating personnel, and support departments in the company's offices and distribution centers worked as a productive total team.

We have regularly emphasized to our stockholders the importance of an organization of outstanding people. Never was this more clearly demonstrated than last year.

During the year we opened 138 stores and closed 39, ending the year with 1244 total units in operation. A major reason for the accelerated expansion rate of recent years has been the larger average number of stores we have opened per new shopping center. A special report on pages 5 to 7 dramatizes this trend. Included in the openings for 1976 were the first six stores of a new men's apparel operation named Oak Tree. Also opened last year were the first three Cover Story stores selling fashionable apparel for women.

We plan to open over 100 stores again in 1977. This year's openings will include additional stores for both Oak Tree and Cover Story. Plans for 1977 and 1978 also include an increased expansion rate for the Handyman division. United Sporting Goods, which did not operate at a profit in 1976, plans no new store openings this year.



During 1977 the headquarters of the Size 5-7-9 Shops division will be moved from Miami to the St. Louis area where a new office and a new distribution center will be built for the Edison Brothers apparel divisions.

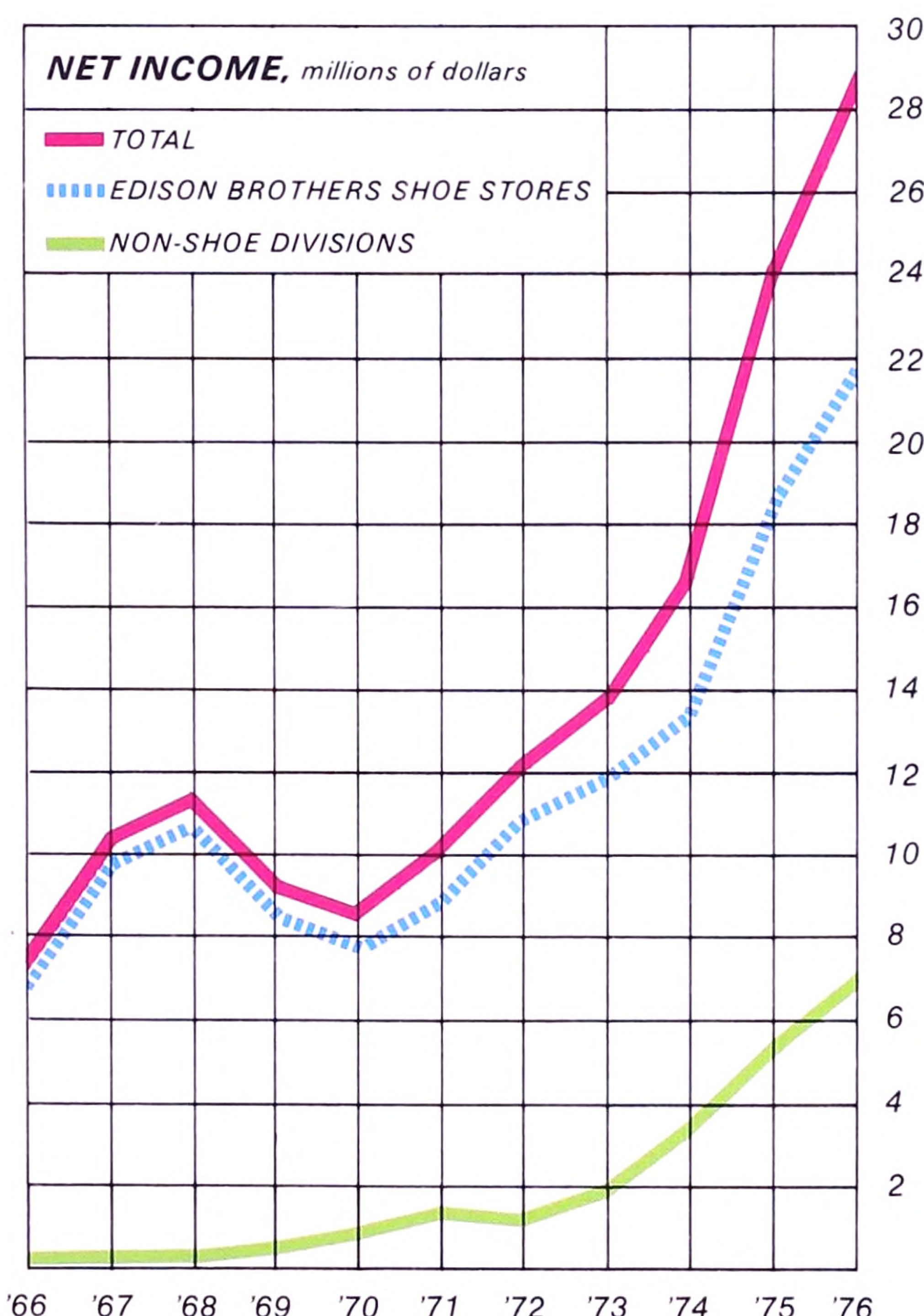
Cash for all of the expansion planned in 1977 and 1978 is already on hand. Cash items at the end of 1976 amounted to about \$38 million, compared to \$31 million at the beginning of the year, and \$18 million at the beginning of 1975. During the most recent year, expenditures for fixed assets amounted to \$16 million, mostly for new stores and the updating of existing facilities. In addition, during the year we purchased 34,804 shares of our common stock for general corporate purposes.

Several officers retired during 1976. Sidney A. Levinson, vice president and shoe division merchandise controller, retired after a distinguished 47-year career. Joseph J. Metzler, vice president and treasurer, retired after 42 years of outstanding service. Francis J. Wetta, vice president and west

coast sales manager for the shoe division, retired after a 46-year career of contributions in the store operations department. William R. Langston, vice president and southern sales manager for the shoe division, retired after a 35-year career of contributions in the store operations department. Russell S. Branstetter, assistant treasurer, retired after 31 years of distinguished service. These officers made outstanding contributions to the development of Edison Brothers. We shall miss their daily personal support. However, among the contributions they made to Edison Brothers was the development of other people to carry on their responsibilities. Each of them turned over his assignment to a successor who had been personally trained by the retiring officer.

We also report with sorrow the passing during 1976 of Joseph M. Arenson, an advisory director who retired in 1972 after a 50-year career with Edison Brothers.

The good sales results of 1976 have continued through the first two months of 1977. We begin this new year with the utmost pride in the skills, integrity and dedication of our associates. People provide the basis for our confidence that Edison Brothers Stores, Inc. will continue to progress in the years ahead.





 Chairman of the Board President

St. Louis, Missouri, February 24, 1977

THE FIVE COMPANY DIVISIONS

EDISON BROTHERS SHOE STORES

874 stores and departments.

Shoe stores: Chandlers, Bakers, Leeds, Burts, The Wild Pair;
Leased shoe departments; Joan Bari boutiques

THE HANDYMAN

52 stores. Do-it-yourself hardware
and building materials

JEANS WEST/OAK TREE

159 stores. Jeans West: young people's casual apparel;
Oak Tree: contemporary men's apparel

SIZE 5-7-9 SHOPS/COVER STORY

126 stores. Size 5-7-9 Shops: small size junior apparel
Cover Story: contemporary junior apparel

UNITED SPORTING GOODS

33 stores. Complete selection of
fine sports equipment and apparel



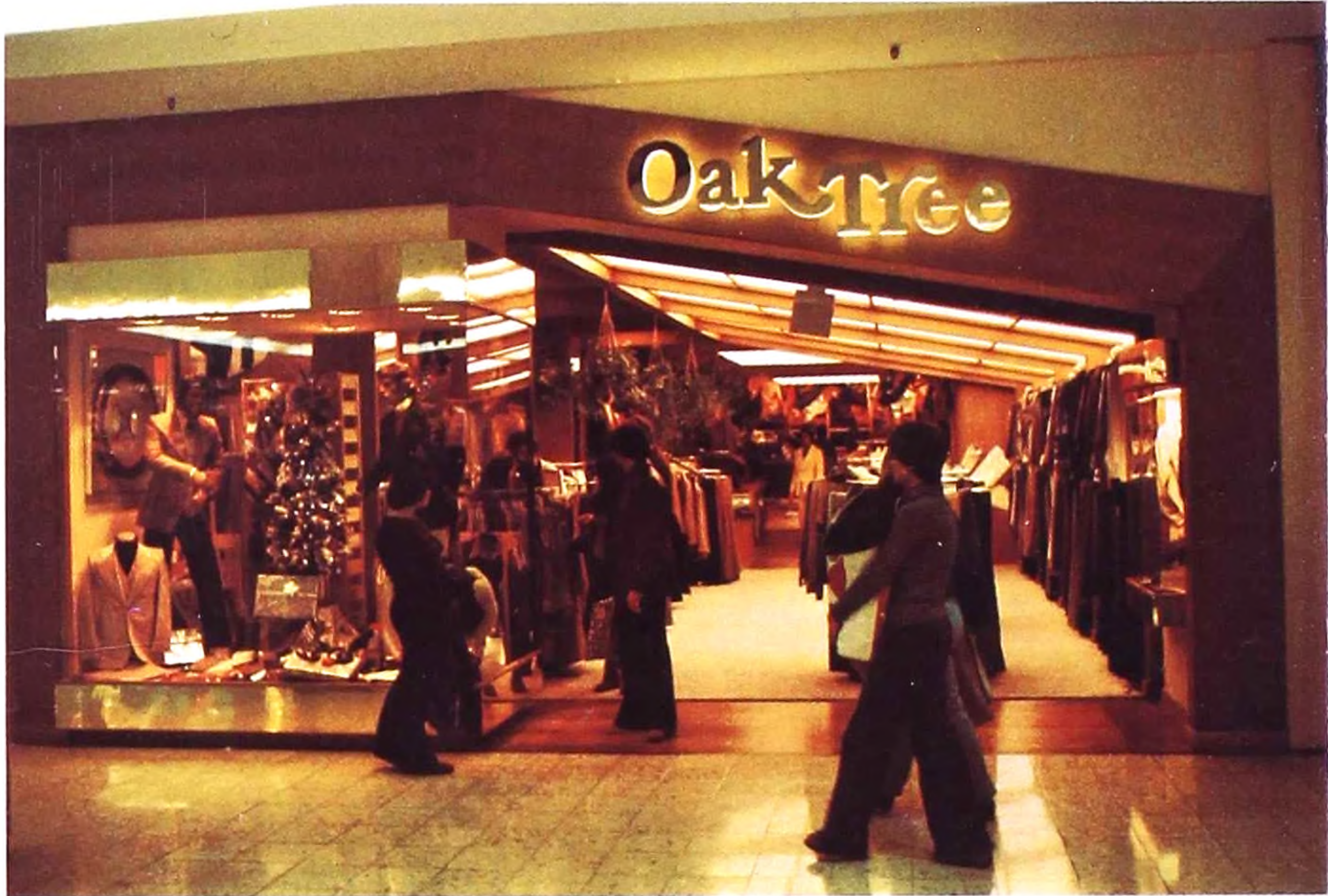
**Last fall, for the first time,
Edison Brothers Stores Inc.
opened nine stores in one
shopping center**



*Randall
Park Mall*

Developed by The Edward J. DeBartolo Corporation, the Randall Park Mall in Cleveland, Ohio, an enclosed, two-level regional shopping center, is one of the nation's largest. The tenants include five major department stores and over 260 specialty shops in 2,200,000 square feet. Each of the nine Edison stores in the mall caters to a particular segment of customers in the footwear, apparel and accessory areas. All have enjoyed excellent business since they opened.

The nine Edison stores
in Randall Park Mall...



OAK TREE—MEN'S APPAREL

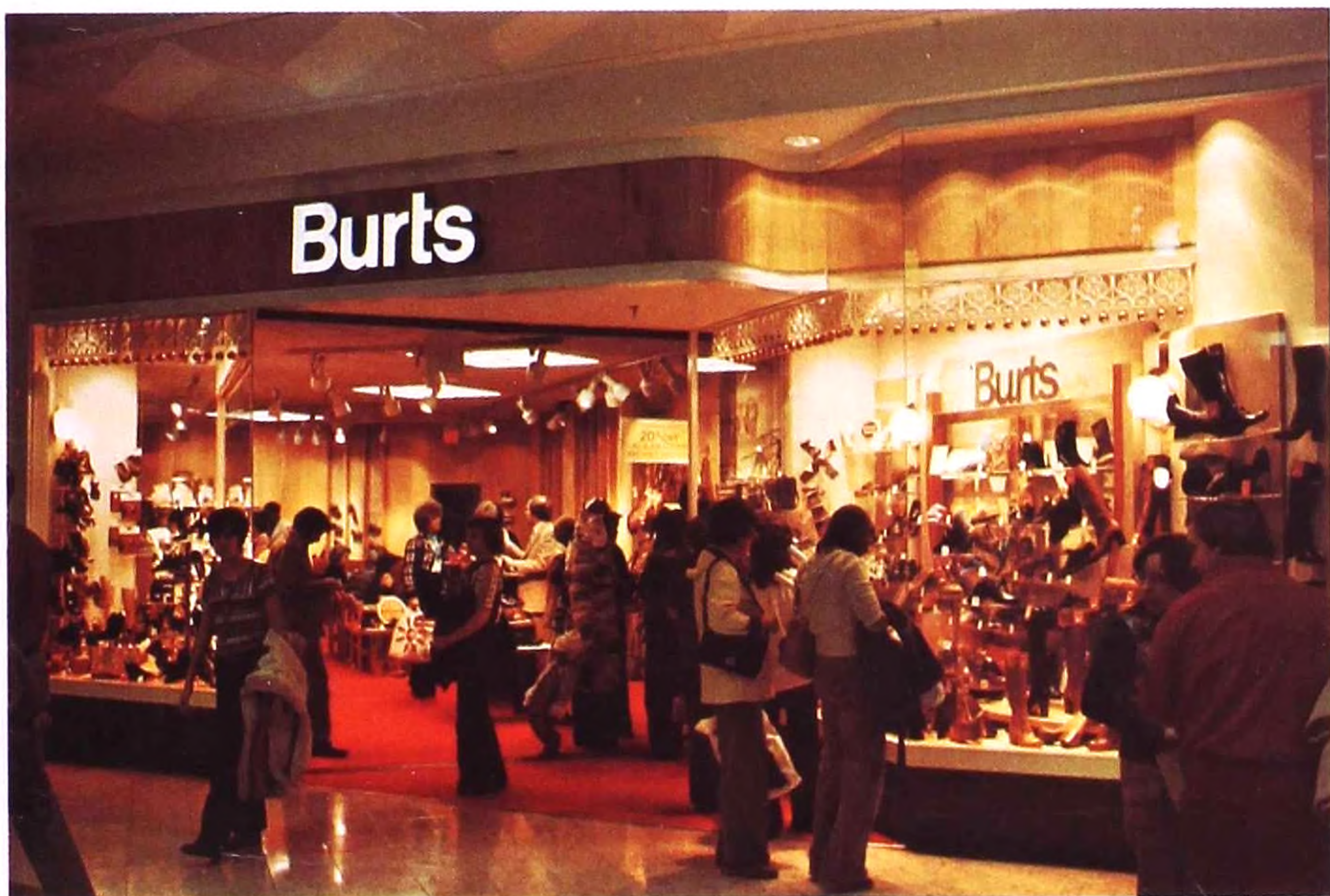
THE MALL INTERIOR

SMALL STUFF—JUNIOR APPAREL
(Size 5-7-9 Shops)

JOAN BARI BOUTIQUE—HANDBAGS

COLES—WOMEN'S SHOES
(Bakers/Leeds)





BURTS—WOMEN'S SHOES

CHANDLERS—WOMEN'S SHOES

COVER STORY—WOMEN'S APPAREL

JEANS WEST—YOUNG CASUAL APPAREL

THE WILD PAIR—HE & SHE SHOES



THE YEAR IN REVIEW

SALES

Consolidated net sales for the 52 week fiscal year ended January 1, 1977 were \$532,312,000, an increase of 8.7% over sales of \$489,594,000 for the 53 week fiscal year ended January 3, 1976. Shoe division sales reached \$322,577,000 in 1976 compared to \$303,213,000 in 1975. Non-shoe divisions sales of \$209,735,000 in 1976 compared to \$186,381,000 in 1975.

PROFITS

Consolidated net income for 1976 was \$28,927,000, an increase of 20.7% over net income of \$23,957,000 in 1975. The per share earnings on the average number of common shares outstanding was \$7.24 in 1976 and \$5.94 in 1975. The shoe division accounted for \$21,908,000 of earnings in 1976 and \$18,645,000 in 1975. The non-shoe divisions contributed \$7,019,000 to 1976 earnings compared to \$5,312,000 in 1975.

DIVIDENDS

Cash dividends paid on the Company's common and preferred stock amounted to \$6,916,000 in 1976 and \$6,019,000 in 1975. Common stock dividends per share were \$1.72 in 1976 and \$1.48 in 1975. This was the 43rd consecutive year in which the Company paid dividends on its common stock. On December 15, 1976, the Board of Directors increased the quarterly dividend 12¢ to 55¢ per share which is equivalent to an annual rate of \$2.20 per share. This increased dividend rate will be effective with the March 11, 1977 payment and represents the 12th increase in the past 12 years.

WORKING CAPITAL

At the close of the 1976 fiscal year, working capital totaled \$84,615,000 compared with \$72,175,000 at the close of 1975. This represents an increase of \$12,440,000 or 17.2%. The current ratio at the end of 1976 was 2.6 to 1.

Expenditures for fixed assets were \$16,284,000 in 1976 compared to \$17,250,000 in 1975. Depreciation and amortization of fixed assets totaled \$8,760,000 in 1976 and \$7,441,000 in 1975.

During 1976, 34,804 shares of the Company's common stock and 160 shares

of preferred stock were purchased for a total of \$1,734,000.

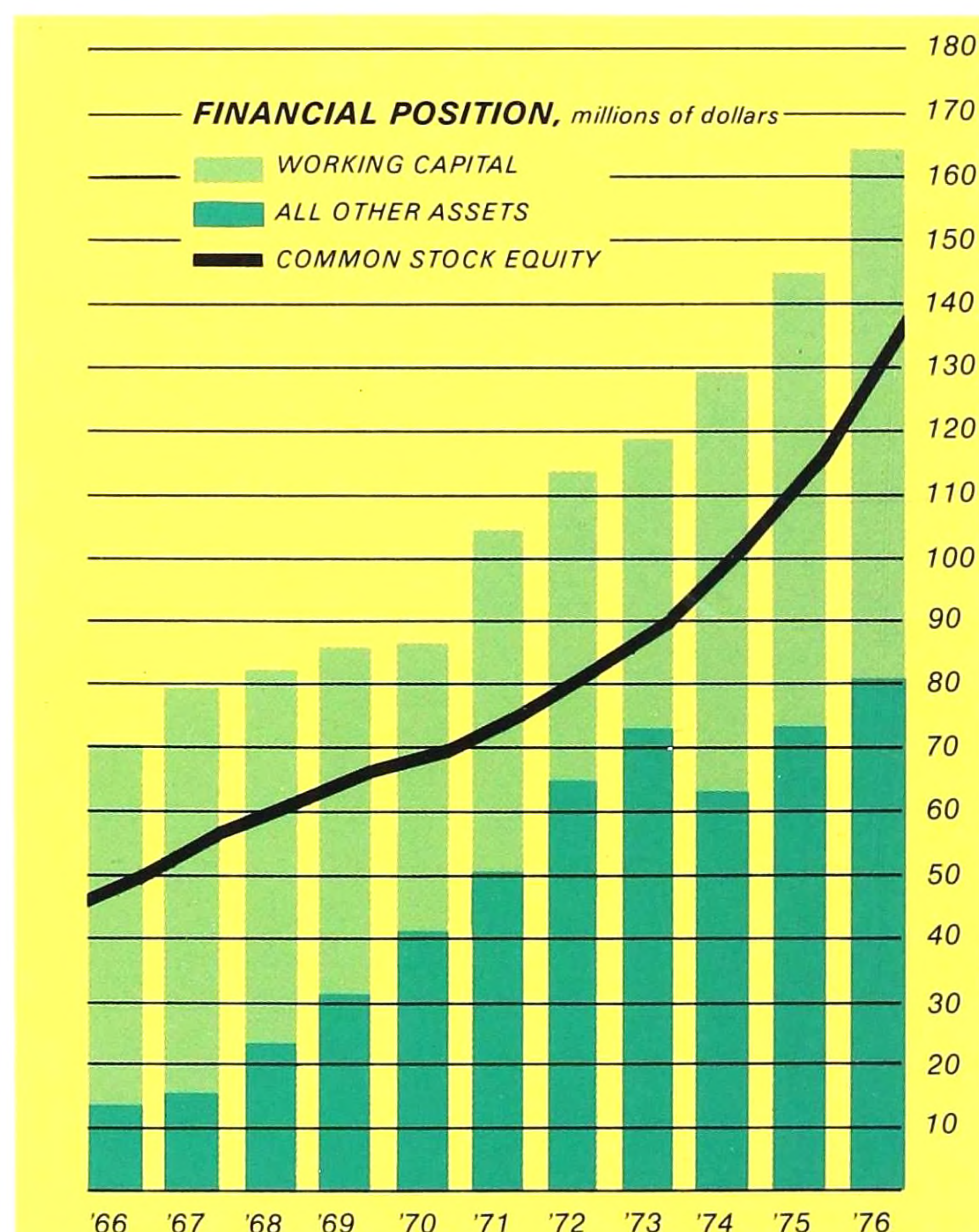
Cash, certificates of deposit and short-term investments totaled \$37,780,000 as of January 1, 1977, a \$6,566,000 increase from the \$31,214,000 balance at the beginning of 1976.

At the close of 1976, merchandise inventories were valued at \$97,291,000. This represents an increase of \$15,131,000 or 18.4% over the \$82,160,000 balance at the beginning of the year.

PERSONNEL CHANGES

Twenty executives have been appointed to new officer positions. Edison Brothers Stores, Inc.: John D. Watkins, president of United Sporting Goods, was elected vice president and George J. Lucas was elected assistant vice president, accounting.

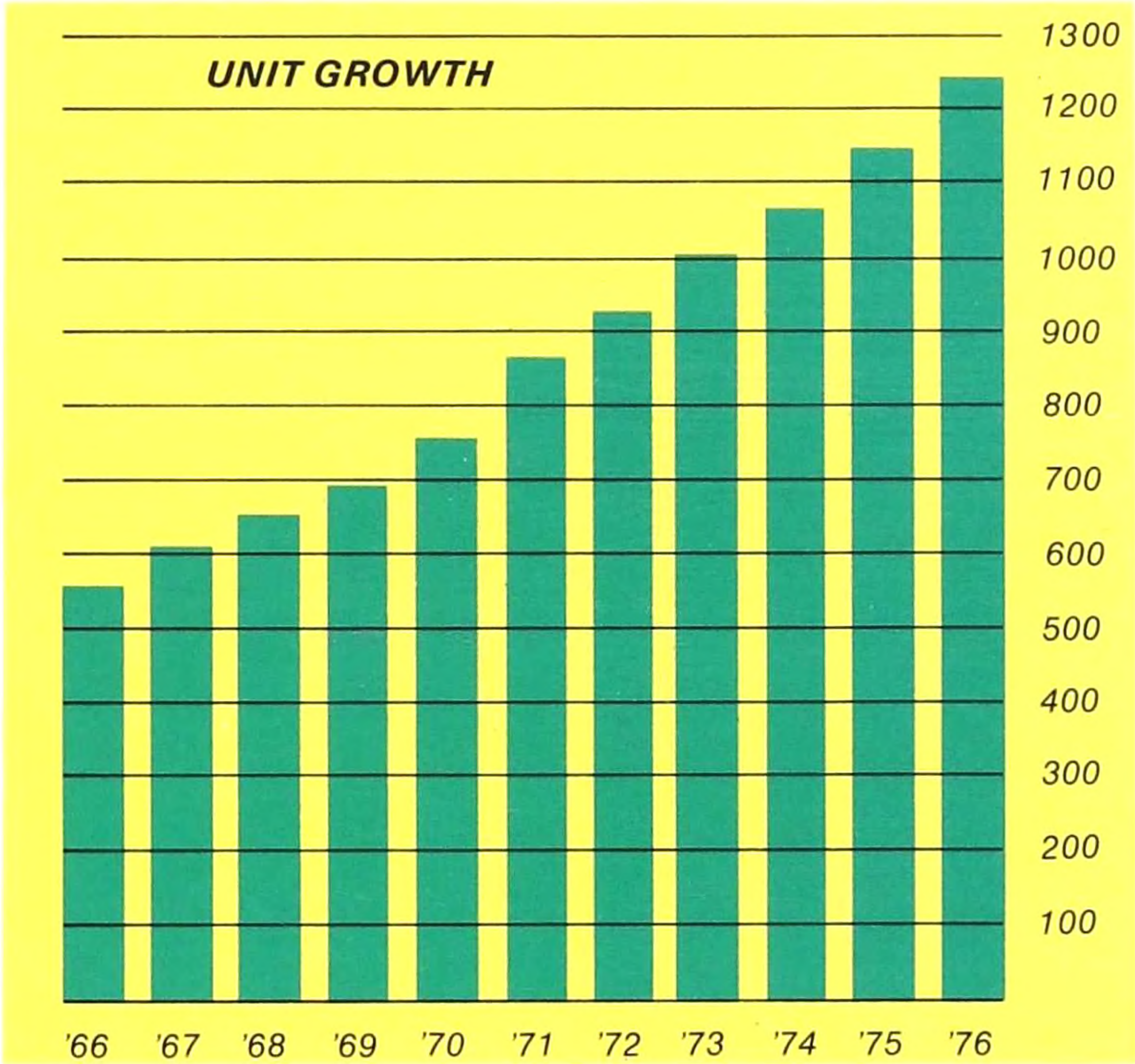
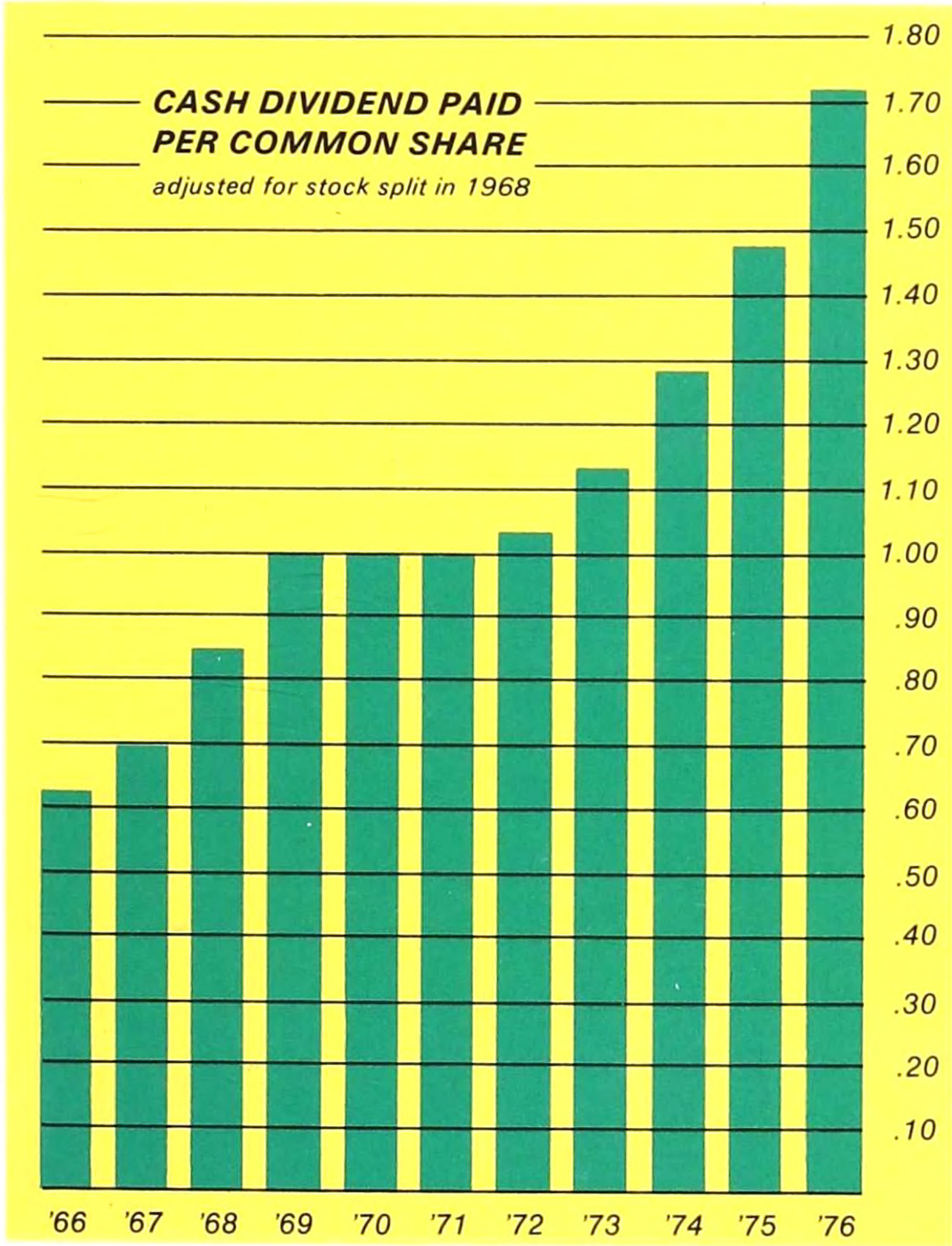
Edison Brothers Shoe Stores: Bernard W. Colton, architecture and construction, and Murray Krinsky, eastern divisional sales manager were elevated to vice president



from assistant vice president. Vince A. Rocco, west coast divisional sales manager, was also elected vice president. New assistant vice presidents are Joseph J. Butrus, buyer Chandlers casual shoes; Michael H. Freund, merchandise controller, accessories; Robert B. Higginbotham, buyer house shoes and athletic shoes; Ralph J. Juris, regional manager, New York City; Patrick D. Kleve, buyer hosiery; A. Henry Kramar, buyer children's and men's shoes; Vincent J. Marcantonio, regional manager, San Diego; Jan E. Rossbach, associate buyer sports shoes and boots; and Howard H. Waller, southern divisional sales manager.

Size 5-7-9 Shops/Cover Story: Ronald S. Hirshberg was elected president. New vice presidents are Bill Adams, eastern U.S. sales manager; Virgil Gilger, western U.S. sales manager; and Susan Wein, merchandise manager Cover Story.

United Sporting Goods: Robert L. Misrach was elected chairman and John D. Watkins was elected president.



EMPLOYEE BENEFITS

Edison Brothers Stores, Inc. and its subsidiaries now have approximately 15,300 regular and part-time employees on a seasonal average basis. Salaries and wages totaled \$91,358,000 in 1976 as compared to \$84,976,000 in 1975. Payroll taxes paid by the Company in 1976 and 1975 totaled \$6,678,000 and \$5,862,000, respectively.

The Company's contribution to the employees health plan trust, which includes hospital, medical and life insurance coverage, was \$1,611,000 in 1976. In addition, \$2,594,000 was contributed to the pension trust in 1976. This combined contribution of \$4,205,000 was \$551,000 greater than the 1975 combined contribution. The pension trust is entirely paid for by the Company and is administered by Bankers Trust of New York. On January 1, 1977, the market value of the assets of the pension trust amounted to \$20,700,000.

In 1976, the Company recognized expense of \$2,078,000 (\$1,282,000 in 1975) for shares of the Company's common stock issuable to executives, including store managers, under the 1975 Stock Bonus Plan.

CONSOLIDATED BALANCE SHEETS

ASSETS

	January 1, 1977	January 3, 1976
Current Assets:		
Cash	\$ 11,847,000	\$ 13,950,000
Certificates of deposit and short-term investments	25,933,000	17,264,000
Merchandise inventories	97,291,000	82,160,000
Other current assets	3,825,000	3,530,000
Total Current Assets	<u>138,896,000</u>	<u>116,904,000</u>
Fixed Assets, at cost	111,913,000	98,519,000
Less: Accumulated depreciation and amortization	33,819,000	27,949,000
	<u>78,094,000</u>	<u>70,570,000</u>
Other Assets	2,469,000	2,579,000
	<u>\$219,459,000</u>	<u>\$190,053,000</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Current installments of long-term debt	\$ 1,814,000	\$ 2,442,000
Accounts payable, accrued expenses, etc.	39,384,000	33,972,000
Income taxes	13,083,000	8,315,000
Total Current Liabilities	<u>54,281,000</u>	<u>44,729,000</u>
Long-Term Debt	19,188,000	20,687,000
Deferred Income Taxes, etc.	7,559,000	4,428,000
Stockholders' Equity:		
4¼% Cumulative Preferred Stock, par value \$100	1,888,000	1,904,000
Common Stock, par value \$1	3,969,000	3,997,000
Retained Earnings	132,574,000	114,308,000
Total Stockholders' Equity	<u>138,431,000</u>	<u>120,209,000</u>
	<u>\$219,459,000</u>	<u>\$190,053,000</u>

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended	
	January 1, 1977 (52 weeks)	January 3, 1976 (53 weeks)
Net sales	<u>\$532,312,000</u>	<u>\$489,594,000</u>
Cost of goods sold, including occupancy and buying expenses	338,274,000	315,107,000
Store operating and administrative expenses	124,513,000	113,699,000
Depreciation and amortization of fixed assets	8,760,000	7,441,000
Interest expense	1,662,000	1,817,000
Other deductions, net	<u>838,000</u>	<u>1,393,000</u>
	<u>474,047,000</u>	<u>439,457,000</u>
Income before income taxes	58,265,000	50,137,000
Provision for income taxes	<u>29,338,000</u>	<u>26,180,000</u>
Net income (per Common share— \$7.24 and \$5.94, respectively)	<u><u>\$ 28,927,000</u></u>	<u><u>\$ 23,957,000</u></u>

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings
Balance at beginning of fiscal year 1975	\$1,904,000	\$4,043,000	\$1,118,000	\$ 96,635,000
Add (deduct):				
Net income				23,957,000
Stock options exercised		1,000	36,000	
Common Stock purchased—47,012 shares		(47,000)	(1,154,000)	(265,000)
Cash dividends paid:				
Preferred Stock—\$4.25 per share				(81,000)
Common Stock—\$1.48 per share				(5,938,000)
Balance at beginning of fiscal year 1976	<u>1,904,000</u>	<u>3,997,000</u>	<u>-0-</u>	<u>114,308,000</u>
Add (deduct):				
Net income				28,927,000
Stock options exercised		6,000	125,000	
Preferred Stock purchased—160 shares ..	(16,000)		8,000	
Common Stock purchased—34,804 shares		(34,000)	(133,000)	(1,559,000)
Cash dividends paid:				
Preferred Stock—\$4.25 per share				(81,000)
Common Stock—\$1.72 per share				(6,835,000)
Dividend declared on Common Stock payable March 11, 1977—\$.55 per share ...				(2,186,000)
Balance at end of fiscal year 1976	<u><u>\$1,888,000</u></u>	<u><u>\$3,969,000</u></u>	<u><u>-0-</u></u>	<u><u>\$132,574,000</u></u>

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended	
	January 1, 1977 (52 weeks)	January 3, 1976 (53 weeks)
Additions to Working Capital:		
Net income	\$28,927,000	\$23,957,000
Charges to operations not requiring an outlay of current funds:		
Depreciation and amortization of fixed assets	8,760,000	7,441,000
Provision for stock bonus plan expense	2,078,000	1,282,000
Other	1,163,000	801,000
Working Capital provided from operations	40,928,000	33,481,000
Sundry, net	461,000	926,000
	<u>41,389,000</u>	<u>34,407,000</u>
Reductions in Working Capital:		
Expenditures for fixed assets, net	16,284,000	17,250,000
Purchase of Treasury Stock	1,734,000	1,466,000
Reductions in long-term debt	1,829,000	2,442,000
Dividends declared	9,102,000	6,019,000
	<u>28,949,000</u>	<u>27,177,000</u>
Increase in Working Capital	12,440,000	7,230,000
Working Capital at beginning of year	72,175,000	64,945,000
Working Capital at end of year	<u><u>\$84,615,000</u></u>	<u><u>\$72,175,000</u></u>

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Consolidation—The financial statements include the accounts of all subsidiaries; intercompany accounts and transactions have been eliminated.

Certificates of deposit and short-term investments are stated at the lower of cost or market.

Inventories—A portion of the inventories is stated at the lower of cost, principally average cost, or market, based principally on anticipated realizable values. The other portion is based on the retail method.

Depreciation—Depreciation and amortization are computed principally on the straight-line basis.

Income Taxes—Investment tax credits of approximately \$840,000 (1976) and \$800,000 (1975) have been applied as reductions of the provisions for Federal income taxes. Deferred income taxes, net, at the balance sheet dates of \$2,396,000 (1976) and \$2,091,000 (1975) generally arise as a result of the timing difference of depreciation, amortization and stock bonus expense reported for financial statement and income tax purposes.

Computation of Income Per Share—Net income per Common share is based on the weighted average number of shares outstanding during the year. Shares issuable under the stock option and stock bonus plans would have no material dilutive effect on earnings per share.

FIXED ASSETS—The major classifications of fixed assets are as follows:

	Estimated life in years	Cost January 1, 1977	January 3, 1976
Land		\$ 10,549,000	\$ 9,406,000
Buildings	25	15,548,000	13,663,000
Leaseholds and leasehold improvements . . .	10-15	48,520,000	42,333,000
Fixtures and equipment	5-10	37,296,000	33,117,000
Total Cost		<u><u>\$111,913,000</u></u>	<u><u>\$98,519,000</u></u>

LONG-TERM DEBT—

	Maturity	January 1, 1977		January 3, 1976	
		Installments due in 1977	Subsequent maturities	Installments due in 1976	Subsequent maturities
Promissory Notes:					
5.25%	1979	\$ 350,000	\$ 750,000	\$ 350,000	\$ 1,100,000
5.375%	1982	250,000	1,500,000	250,000	1,750,000
4.9%	1983	313,000	1,875,000	313,000	2,187,000
4.9%	1984	250,000	1,850,000	250,000	2,100,000
8.625%	1991	608,000	12,284,000	608,000	12,892,000
Other	Various	43,000	929,000	671,000	658,000
		<u>\$1,814,000</u>	<u>\$19,188,000</u>	<u>\$2,442,000</u>	<u>\$20,687,000</u>

PREFERRED STOCK—The 4¼% Cumulative Preferred Stock, which is redeemable at \$104 plus accrued dividends upon call or voluntary liquidation and at \$100 plus accrued dividends upon involuntary liquidation, is summarized as follows:

	Shares	
	January 1, 1977	January 3, 1976
Authorized and originally issued	65,000	65,000
Less: Sinking fund redemptions	36,400	35,100
Held in treasury	9,722	10,862
	<u>46,122</u>	<u>45,962</u>
Outstanding	<u>18,878</u>	<u>19,038</u>

The Company has fulfilled sinking fund requirements for the annual redemption and cancellation of 1,300 shares through January 1, 1977.

COMMON STOCK—

	Shares	
	January 1, 1977	January 3, 1976
Issued (5,000,000 authorized)	4,367,091	4,361,239
Less: Held in treasury	398,584	363,780
Outstanding	<u>3,968,507</u>	<u>3,997,459</u>

The Company has a Qualified Stock Option Plan for the sale of Common Stock of the Company to executives, including store managers. In February 1975, existing options under the Qualified Stock Option Plan were terminated and new options granted. Changes in the status of the options are summarized as follows:

	Number of shares	
	January 1, 1977	January 3, 1976
Under option, beginning of year	54,828	60,248
Options granted		54,828
Options cancelled	(1,848)	(58,798)
Options exercised (\$22.00—\$26.25 per share)	(5,852)	(1,450)
Under option, end of year	<u>47,128</u>	<u>54,828</u>
Available for option at end of year	<u>-0-</u>	<u>50,691</u>
Exercisable at end of year	<u>7,393</u>	<u>-0-</u>

The per share option price of the 47,128 shares under option at January 1, 1977 was \$22.50.

In February 1975, the Board of Directors created the 1975 Stock Bonus Plan under which 250,000 shares of Common Stock may be issued to executives, including store managers. The stock is distributable in installments from two to six years after grant, based on the excess of market value at time of distribution over the base price (which may not be less than 75% of market value at date of grant). The cost of the plan (\$2,078,000 in 1976 and \$1,282,000 in 1975) is being charged to income over the applicable six year period. The annual charge will vary depending on changes in the market price of the Company's Common Stock over the term of the bonus grants. Based on the quoted market value of the Common Stock at January 1, 1977, approximately 18,000 shares are issuable at a base price of \$39.00—\$43.00 (bonuses granted in 1976) and 98,000 shares are issuable at a base price of \$19.00 (bonuses granted in 1975). These base prices were 84% of market value at date of grant.

LEASES—Operations of the companies are, for the most part, conducted in leased premises. A majority of leases provide for percentage rentals based upon sales, and other items, as additional rent. Net rental expense for approximately 1,300 (1976) and 1,200 (1975) leases and subleases is as follows:

	Noncapitalized financing leases*		Other leases		Total	
	1976	1975	1976	1975	1976	1975
Minimum	\$3,961,000	\$4,127,000	\$22,275,000	\$19,987,000	\$26,236,000	\$24,114,000
Based upon sales	15,000	19,000	5,353,000	5,180,000	5,368,000	5,199,000
Other	1,080,000	1,046,000	3,998,000	3,428,000	5,078,000	4,474,000
Less: Sublease income	(160,000)	(168,000)	(748,000)	(714,000)	(908,000)	(882,000)
	<u>\$4,896,000</u>	<u>\$5,024,000</u>	<u>\$30,878,000</u>	<u>\$27,881,000</u>	<u>\$35,774,000</u>	<u>\$32,905,000</u>

Approximate minimum rental commitments under all noncancellable real estate leases at January 1, 1977 for the periods shown below are as follows:

	Noncapitalized financing leases*			Other leases			Total
	Commitment	Sublease income	Subtotal	Commitment	Sublease income	Subtotal	
1977	\$ 3,959,000	\$130,000	\$ 3,829,000	\$23,572,000	\$624,000	\$22,948,000	\$26,777,000
1978	3,845,000	130,000	3,715,000	22,669,000	501,000	22,168,000	25,883,000
1979	3,732,000	130,000	3,602,000	21,907,000	395,000	21,512,000	25,114,000
1980	3,737,000	130,000	3,607,000	20,947,000	326,000	20,621,000	24,228,000
1981	3,739,000	126,000	3,613,000	19,658,000	291,000	19,367,000	22,980,000
1982-1986	18,619,000	261,000	18,358,000	80,836,000	908,000	79,928,000	98,286,000
1987-1991	17,942,000	222,000	17,720,000	52,398,000	516,000	51,882,000	69,602,000
1992-1996	15,017,000	222,000	14,795,000	12,193,000	267,000	11,926,000	26,721,000
Beyond 1996 ..	16,842,000	22,000	16,820,000	1,477,000	1,000	1,476,000	18,296,000

*As defined by the Securities and Exchange Commission.

Approximate present values at the balance sheet dates for all noncapitalized real estate financing leases are \$40,371,000 (1976) and \$42,631,000 (1975). The range of interest rates is 2.5-8.5% and the weighted average interest rate is 7.2% in 1976 and 1975. If the companies had capitalized noncapitalized financing leases the impact upon net income would not have been material.

RETAINED EARNINGS—The terms of the instruments relating to long-term loans and the Preferred Stock contain certain restrictions including limitations on the payment of dividends (other than stock dividends) and the acquisition of capital stock of the Company. Retained Earnings of \$54,615,000 as at January 1, 1977, are free of such limitations.

PENSION COSTS—The companies have a pension plan covering employees who have met eligibility requirements. Pension expense was \$2,594,000 in 1976 and \$2,005,000 in 1975 including amortization of unfunded past service cost over 40 years. It is the Company's policy to fund pension cost accrued. Based on the most recent report by the Company's consulting actuaries, which is as of January 1, 1976, the unfunded past service cost for the pension plan aggregated \$11,030,000 and the actuarially computed value of vested benefits exceeded the value of pension trust assets by \$8,395,000.

The Company's pension plan was amended as of January 1, 1976 to comply with the Employee Retirement Income Security Act of 1974. In addition, the Company amended benefit provisions of the plan in 1976 and changed actuarial assumptions relating to the future compensation levels of active participants and the earning power of fixed income investments presently in the portfolio of the pension fund. The net effect of these changes was to increase the cost of the plan in 1976 by approximately \$504,000 and the plan's unfunded past service cost by \$4,488,000.

CHANGES IN WORKING CAPITAL BY ELEMENT—

	Year ended	
	January 1, 1977 (52 weeks)	January 3, 1976 (53 weeks)
Increase (decrease) in current assets:		
Cash, certificates of deposit and short-term investments	\$ 6,566,000	\$12,892,000
Merchandise inventories	15,131,000	1,860,000
Other current assets	295,000	(889,000)
	<u>21,992,000</u>	<u>13,863,000</u>
Increase (decrease) in current liabilities:		
Notes payable, banks		(1,500,000)
Accounts payable, accrued expenses, etc.	5,412,000	3,900,000
Income taxes	4,768,000	3,604,000
Current installments of long-term debt	(628,000)	629,000
	<u>9,552,000</u>	<u>6,633,000</u>
Increase in Working Capital	<u>\$12,440,000</u>	<u>\$ 7,230,000</u>

CONTINGENT LIABILITY—A shoe design patent suit for \$25,000,000 was filed against the Company in 1975. The Company and its counsel are of the opinion that the suit is without merit. In addition, the Company has indemnification agreements from third parties.

QUARTERLY RESULTS (UNAUDITED)—The unaudited quarterly net sales, cost of goods sold, including occupancy and buying expense (Cost of Sales), net income and earnings per share (EPS) are set forth in the following table:

Quarter Ended	1976			
	Net Sales	Cost of Sales	Net Income	EPS
April 24 (16 weeks)	\$144,182,000	\$ 95,586,000	\$ 4,602,000	\$1.15
July 3 (10 weeks)	97,402,000	61,895,000	5,133,000	1.28
Oct. 2 (13 weeks)	133,104,000	85,323,000	6,184,000	1.55
Jan. 1, 1977 (13 weeks)	157,624,000	95,470,000	13,008,000	3.26
Year	<u>\$532,312,000</u>	<u>\$338,274,000</u>	<u>\$28,927,000</u>	<u>\$7.24</u>

ASSET REPLACEMENT COST (UNAUDITED)—The impact of inflation on the cost of replacing year-end inventories would not be significant. In addition, the Company has historically been able to compensate for cost increases by increasing sales prices in amounts sufficient to maintain or improve its gross profit percentage on sales.

The replacement of buildings, leaseholds and leasehold improvements and fixtures and equipment with assets having equivalent selling and supportive capacity would require a greater capital investment than that which was required to purchase the assets being replaced. However, recent changes in merchandise inventory presentation and selling concepts and technological improvements relating to store construction, etc. have enabled the Company to achieve greater sales volume in smaller stores. As a result, the cost of replacing existing assets would be less than expected when considering the escalation of square footage costs and general price-level increases of recent years.

The Company's annual report on Form 10K (a copy of which is available to stockholders upon request) contains specific information with respect to estimated year-end 1976 replacement cost of inventories and productive capacity (generally buildings, leaseholds and leasehold improvements, fixtures and equipment), and the related estimated effect which replacement costs would have had on the computation of cost of sales and depreciation expense for the year.

ACCOUNTANTS' REPORT

To the Board of Directors
Edison Brothers Stores, Inc.
St. Louis, Missouri

We have examined the consolidated balance sheets of Edison Brothers Stores, Inc. and subsidiary companies as at January 1, 1977 and January 3, 1976, and the related consolidated statements of income, stockholders' equity and changes in financial position for the years (52 and 53 weeks, respectively) then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements present fairly the consolidated financial position of Edison Brothers Stores, Inc. and subsidiary companies at January 1, 1977 and January 3, 1976, and the consolidated results of their operations and consolidated changes in their financial position for the years (52 and 53 weeks, respectively) then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

St. Louis, Missouri
February 24, 1977

S. D. Leidesdorf & Co.

EBS COMMON SHARES QUARTERLY PRICES AND DIVIDENDS

		1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
		High	Low	High	Low	High	Low	High	Low
1975	Prices	\$31.75	\$16.75	\$40.13	\$30.88	\$41.88	\$32.25	\$52.50	\$35.50
	Dividends . . .	\$.37		\$.37		\$.37		\$.37	
1976	Prices	56.25	46.00	52.25	45.75	54.50	47.50	59.75	50.38
	Dividends . . .	.43		.43		.43		.43	

Edison Brothers Stores, Inc. Common Shares are listed on the New York Stock Exchange

Transfer Agent: Bankers Trust Company, New York, N.Y. 10017

Registrar: The Chase Manhattan Bank, New York, N.Y. 10015

STATISTICAL SUMMARY

	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
Units <i>end of each year</i>	1,244	1,145	1,079	1,006	922	870	766	692	667	606	565
Net sales	\$532,312,000	\$489,594,000	\$420,508,000	\$372,402,000	\$333,070,000	\$290,870,000	\$255,955,000	\$244,696,000	\$240,300,000	\$213,770,000	\$181,633,000
Cost of goods sold, including occupancy and buying expenses	338,274,000	315,107,000	276,761,000	245,489,000	221,470,000	194,386,000	168,084,000	159,027,000	155,538,000	139,994,000	121,057,000
Taxes other than Federal income taxes	13,426,000	12,985,000	9,903,000	9,219,000	7,305,000	5,784,000	4,968,000	4,881,000	4,196,000	3,405,000	2,834,000
Interest expense	1,662,000	1,817,000	2,356,000	3,046,000	2,087,000	1,455,000	1,142,000	1,142,000	1,017,000	991,000	1,058,000
Other expenses	124,709,000	114,044,000	99,544,000	89,359,000	80,860,000	72,389,000	67,677,000	62,970,000	59,274,000	51,522,000	44,145,000
Federal income taxes	25,314,000	21,684,000	15,150,000	11,508,000	9,220,000	6,700,000	5,464,000	7,430,000	8,996,000	7,373,000	4,812,000
Net income	28,927,000	23,957,000	16,794,000	13,781,000	12,128,000	10,156,000	8,620,000	9,246,000	11,279,000	10,485,000	7,727,000
Preferred stock dividends paid	81,000	81,000	108,000	118,000	119,000	119,000	121,000	124,000	127,000	132,000	151,000
Net income applicable to common stock	28,846,000	23,876,000	16,686,000	13,663,000	12,009,000	10,037,000	8,499,000	9,122,000	11,152,000	10,353,000	7,576,000
Common stock dividends paid	6,835,000	5,938,000	5,245,000	4,709,000	4,355,000	4,174,000	4,189,000	4,238,000	3,533,000	2,897,000	2,588,000
Working capital	84,615,000	72,175,000	64,945,000	46,302,000	49,164,000	53,325,000	45,383,000	54,546,000	59,485,000	62,475,000	57,784,000
Long-term debt	19,188,000	20,687,000	22,413,000	24,681,000	26,230,000	25,501,000	13,998,000	15,317,000	16,515,000	18,107,000	18,868,000
Common stock equity	136,543,000	118,305,000	101,796,000	91,015,000	84,925,000	77,144,000	70,687,000	68,336,000	64,637,000	57,786,000	50,014,000
Common shares outstanding at year end	3,969,000	3,997,000	4,043,000	4,094,000	4,190,000	4,186,000	4,155,000	4,232,000	4,254,000	4,255,000	4,240,000
Weighted average common shares outstanding	3,982,000	4,017,000	4,071,000	4,138,000	4,188,000	4,175,000	4,185,000	4,236,000	4,254,000	4,255,000	4,240,000
Total taxes per common share	\$ 9.73	\$ 8.63	\$ 6.15	\$ 5.01	\$ 3.95	\$ 2.99	\$ 2.49	\$ 2.91	\$ 3.10	\$ 2.53	\$ 1.80
Net income per common share	7.24	5.94	4.10	3.30	2.87	2.40	2.03	2.15	2.62	2.43	1.79
Dividends per common share	1.72	1.48	1.29	1.14	1.04	1.00	1.00	1.00	.85	.70	.63
Equity per common share	34.40	29.60	25.18	22.23	20.27	18.43	17.01	16.15	15.19	13.58	11.80

The number of common shares outstanding and net income per common share have been adjusted to reflect the stock split of 2-for-1 in 1968.
Net income per common share is based on the weighted average number of shares outstanding during the year.
For management's discussion and analysis of the above for 1976 and 1975 and other related information, please refer to the sections of this report entitled "To Our Stockholders" and "The Year in Review."

Additional Officers

EDISON
BROTHERS
STORES, INC.

- JERALD M. ALTON
Assistant Secretary
- MEL FORMAN, Vice President
Size 5-7-9 Shops/Cover Story
- HERBERT A. HAIMSOHN, Vice President
The Handyman
- WALTER H. HEINECKE, Vice President
Real Estate
- RONALD S. HIRSHBERG, Vice President
Size 5-7-9 Shops/Cover Story
- ARTHUR J. HOLLENBACH, Asst. Vice President
Traffic Manager
- GEORGE J. LUCAS, Asst. Vice President
Accounting
- LOUIS G. MELCHIOR
Vice President, Finance and Treasurer
- ROBERT L. MISRACH, Vice President
United Sporting Goods
- DANIEL ORLANDO, Asst. Vice President
Insurance
- LEWIS L. PATE, Controller
- MORGAN I. PITCHER, JR.
Assistant Vice President
- FRANK P. RICCA, JR., Vice President
Real Estate
- MARTIN SNEIDER, Vice President
Jeans West/Oak Tree
- JOHN D. WATKINS, Vice President
United Sporting Goods
- HAROLD M. WINTER
Assistant Treasurer
- M. RICHARD WYMAN, Vice President
Corporate Development

**EDISON
BROTHERS
SHOE STORES, INC.**

JULIAN I. EDISON, President

DAVID ALTON, Vice President
Distribution Centers

SAM ALTON, Vice President
Merchandise Control

HARRY BARBACH, Asst. Vice President
Buyer, Sweet Steps Shoes

BEN BORUS, Vice President
Purchasing

JOSEPH J. BUTRUS, Asst. Vice President
Buyer, Chandlers Casual Shoes

LESTER CHERRY, Vice President
Sales Manager, North Central Division

JOHN CODESPOTI, Vice President
Sales Manager, Mid-Atlantic Division

BERNARD W. COLTON, Vice President
Architecture and Construction

ALFRED CORTOPASSI, Asst. Vice President
Advertising Manager

MARVIN EDELMAN, Vice President
Merchandise Control

STEPHEN D. EDISON, Asst. Vice President
Merchandise Control

BEN ELLIS, Vice President
Buyer, QualiCraft Casuals

PAUL FICHIERA, Asst. Vice President
Buyer, The Wild Pair

FRANK A. FISER, Asst. Vice President
Regional Manager, San Francisco

MICHAEL H. FREUND, Asst. Vice President
Merchandise Control, Accessories

DALE D. GILGER, Vice President
Buyer, Leased Departments

ROBERT B. HIGGINBOTHAM, Asst. Vice President,
Buyer, Athletic and House Shoes

JOSEPH HOLTZMAN, Vice President
Buyer, Leased Departments

LEONARD HUBBARD, Vice President
Store Operations/Leased Dept. Admin.

JACK HULSEY, Asst. Vice President
Regional Manager, St. Louis

E. L. JEFFRYES, Vice President
General Sales Manager

RAY JOHNSON, Asst. Vice President
Regional Manager, Houston

RALPH J. JURIS, Asst. Vice President
Regional Manager, New York City

PATRICK D. KLEVE, Asst. Vice President
Buyer, Hosiery

A. HENRY KRAMAR, Asst. Vice President
Buyer, Children's and Men's Shoes

MURRAY KRINSKY, Vice President
Sales Manager, Eastern Division

STUART LOCHEAD, Vice President
Store Cost Control

VINCENT J. MARCANTONIO, Asst. Vice President
Regional Manager, San Diego

WILLIAM P. MOHR, Asst. Vice President
Art Director

ANDREW E. NEWMAN, Vice President
Operations and Administration

R. DON OSCARSON, Asst. Vice President
Marketing Coordinator

HENRY PASCH, Vice President
Buyer, Sports Shoes and Boots

JOHN R. PAUTSCH, Asst. Vice President
Regional Manager, Los Angeles

MORRIS PEARLMUTTER, Vice President
Advertising and Public Relations

JACK D. PORTER, Vice President
Information Systems

EDISON RICCA, Asst. Vice President
Buyer, QualiCraft Dress Shoes

HAROLD C. ROBISON, Asst. Vice President
Regional Manager, Seattle

VINCE A. ROCCO, Vice President
Sales Manager, West Coast Division

JAN E. ROSSBACH, Asst. Vice President
Associate Buyer, Sports Shoes and Boots

JAMES L. ROWEDDER, Asst. Vice President
Regional Manager, Los Angeles

JACK SARNOFF, Vice President
Display

GEORGE SAVAGE, Vice President
Buyer, QualiCraft Dress Shoes

JAMES STEWART, Vice President
Buyer, Chandlers Dress Shoes

HERBERT M. TALCOFF, Vice President
Accessories

HOWARD H. WALLER, Asst. Vice President
Sales Manager, Southern Division

WILLIAM WILLER, Asst. Vice President
Distribution Centers

**HANDYMAN
HOME IMPROVEMENT
CENTERS**

HERBERT A. HAIMSOHN, President

P. B. COINER, Vice President
Administration

NORMAN FOX, Vice President
Market Development

JARED M. NICHELSON, Vice President
Sales

HARVEY W. ROSEN, Vice President
Merchandising

SIZE 5-7-9 SHOPS/COVER STORY

RONALD S. HIRSHBERG, President

BILL ADAMS, Vice President
Sales Manager, Eastern U.S.

J. BROWER DAVIS, Asst. Vice President

MEL FORMAN, Vice President

VIRGIL GILGER, Vice President
Sales Manager, Western U.S.

SUSAN WEIN, Vice President
Merchandise Manager, Cover Story

JEANS WEST/OAK TREE

MARTIN SNEIDER, President

WILLARD FONAROW, Vice President
General Merchandise Manager

NORMAN GOLD, Asst. Vice President

RICHARD HANCOCK, Vice President
Buyer

ROBERT HAZEL, Asst. Vice President
Buyer

HAROLD E. JOHNSON, Vice President
General Sales Manager

RONALD LYONS, Asst. Vice President
Regional Manager

UNITED SPORTING GOODS

ROBERT L. MISRACH, Chairman

JOHN D. WATKINS, President

RABY FICKLIN, Vice President
General Sales Manager

DALLAS JONES, Vice President
Administration

RONALD A. THOMPSON, Vice President
Buyer

EDISON BROTHERS STORES INC. EXECUTIVE OFFICES: 400 WASHINGTON AVE. MAIL: P.O. BOX 14020, ST. LOUIS, MO. 63178